



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

April 19, 2000

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EXECUTIVE SUMMARY

SCOTT COUNTY BOBBY HAMMONS, SHERIFF SHERIFF'S SETTLEMENT – 1999 TAXES April 19, 2000

The Auditor of Public Accounts has completed the Scott County Sheriff's tax settlement audit for the 1999 tax year. An unqualified opinion was issued on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Settlement Results:

Upon completion of fieldwork, four districts were due additional tax monies collected, while two districts owed refunds to the Sheriff. The County, School District, Library District, and Extension District were due taxes in the amounts of \$2,547; \$8,231; \$1,834; and \$658, respectively. The State owes the Sheriff \$6,865 in refunds. Also due the Sheriff is \$13,602 from the Health District. Once the refunds are collected, money will be available to pay all taxes.

Report Comments:

- The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 1999 Taxes as of April 19, 2000. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid as of April 19, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

To the People of Kentucky
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Members of the Scott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated November 27, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 27, 2000

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

April 19, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,011,252	\$ 1,506,234	\$ 4,790,143	\$ 2,038,073
Tangible Personal Property	134,639	144,397	379,558	465,419
Intangible Personal Property				478,801
Franchise Corporation	91,189	109,327	336,109	
Limestone, Sand, and Gravel	1,037	1,268	3,123	1,940
Omitted Taxes	481	636	1,449	2,741
Increased Through Erroneous Assessments	2	2	7	416
Penalties	4,462	7,085	20,920	9,025
Adjusted to Sheriff's Receipt		(417)		1
Gross Chargeable to Sheriff	<u>\$ 1,243,062</u>	<u>\$ 1,768,532</u>	<u>\$ 5,531,309</u>	<u>\$ 2,996,416</u>
<u>Credits</u>				
Discounts	\$ 19,548	\$ 28,109	\$ 87,879	\$ 52,497
Exonerations	4,337	5,099	15,582	16,756
Delinquents:				
Real Estate	20,771	30,938	98,391	41,348
Tangible Personal Property	810	869	2,606	2,945
Intangible Personal Property				1,545
Uncollected Franchise Corporation	<u>866</u>	<u>964</u>	<u>3,099</u>	
Total Credits	<u>\$ 46,332</u>	<u>\$ 65,979</u>	<u>\$ 207,557</u>	<u>\$ 115,091</u>
Net Tax Yield	\$ 1,196,730	\$ 1,702,553	\$ 5,323,752	\$ 2,881,325
Less: Commissions *	<u>51,149</u>	<u>72,358</u>	<u>149,065</u>	<u>122,744</u>
Net Taxes Due	\$ 1,145,581	\$ 1,630,195	\$ 5,174,687	\$ 2,758,581
Taxes Paid	1,140,725	1,638,409	5,156,567	2,761,674
Refunds (Current and Prior Year)	<u>2,309</u>	<u>2,896</u>	<u>9,889</u>	<u>3,772</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 2,547</u>	<u>\$ (11,110)</u>	<u>\$ 8,231</u>	<u>\$ (6,865)</u>

* and ** See Page 4

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
April 19, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	5,770,608
2.8% on	\$	5,323,752

** Special Taxing Districts:

Library District	\$	1,834
Health District		(13,602)
Extension District		<u>658</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>(11,110)</u></u>
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The accompanying notes are an integral part of the financial statement.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

April 19, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 19, 2000, the Sheriff's deposits were fully collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
April 19, 2000
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 1999, through April 19, 2000.

Note 4. Interest Income

The Scott County Sheriff earned \$27,107 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENT AND RECOMMENDATION

November 27, 2000

INTERNAL CONTROL:

The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

The Sheriff's office uses Computer Aid software for their tax collections. At the end of each month, this system prints a monthly report listing taxes collected for each district less Sheriff's commission. The bookkeeper then distributes the taxes to the districts according to this printout. At the end of the audit, the draft settlement showed the Sheriff overpaid the State and the Health District \$6,685 and \$13,602, respectively, and underpaid the remaining four districts \$13,267. It was discovered that the erroneous amounts paid to each district resulted from incorrect information, such as inaccurate tax rates, being input into the computer program by Computer Aid. The Sheriff's bookkeeper paid the districts according to the computer printouts without first reconciling the printouts to the manual tax collection ledger. Had the bookkeeper reconciled the two records, the error may have been discovered before the districts were paid. We recommend that the bookkeeper begin reconciling the monthly reports generated by the computer with the manual daily tax collection ledger in order to discover discrepancies in a more timely manner.

Sheriff Hammons' Response:

This is already being done; we are reconciling every week.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Scott County Sheriff's Settlement - 1999 Taxes as of April 19, 2000, and have issued our report thereon dated November 27, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement - 1999 Taxes as of April 19, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff Should Reconcile Tax Collection Records At The End Of Each Month

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Auditor of Public Accounts

Audit fieldwork completed -
November 27, 2000

